

Message Text

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ACTION EB-07

INFO OCT-01 AF-06 ARA-06 EA-06 NEA-09 ISO-00 ERDA-05

AID-05 CEA-01 CIAE-00 CIEP-01 COME-00 DODE-00 FEAE-00

FPC-01 H-02 INR-07 INT-05 L-02 NSAE-00 NSC-05 OMB-01

PM-03 USIA-06 SAM-01 OES-03 SP-02 SS-15 STR-04

TRSE-00 FRB-03 CG-00 DOTE-00 FMC-01 EUR-12 /120 W

----- 111217

R 130558Z MAY 75

FM AMEMBASSY KUWAIT

TO SECSTATE WASHDC 2965

INFO AMEMBASSY ABU DHABI

AMEMBASSY ALGIERS

AMEMBASSY CARACAS

AMEMBASSY JAKARTA

AMEMBASSY JIDDA

AMEMBASSY DOHA

AMEMBASSY LAGOS

AMEMBASSY MANAMA

AMEMBASSY MUSCAT

AMEMBASSY TEHRAN

AMEMBASSY TRIPOLI

USINT BAGHDAD

C O N F I D E N T I A L KUWAIT 2022

E.O. 11652: GDS

TAGS: ENRG, EWWT, PDEV KU

SUBJECT: OIL PRODUCERS TANKER FLEET DEVELOPMENT

REF: A) STATE 95548 B) STATE A-1542, MAR 7, 1975

C) KUWAIT 1681

1. EMBASSY REGRETS DELAY REPLYING TO REFAIR, ALTHOUGH INFO
CONTAINED REF C CLOSELY RELATED TO THAT REQUESTED BY REFAIR,
AND WE SUGGEST REF C AND THIS MESSAGE BE READ TOGETHER.

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2. AS PROPERLY NOTED IN REF A KUWAIT IS LEADING OPEC NATION IN TERMS OF TOTAL TANKER TONNAGE IN OPERATION. IT ALSO HAS MORE EXPERIENCE THAN ANY OTHER OPEC STATE IN TANKER FLEET MANAGEMENT AND IS SEEKING TO EXPAND INTO NUMBER OF NEW AREAS INCLUDING LPG CARRIERS AND PRODUCT TANKERS. MOREOVER, GENERAL CARGO SHIPPING ALSO EXPANDING RAPIDLY. RATIONALE FOR EXPANSION DOES NOT APPEAR TO BE MOTIVATED BY A DESIRE TO MAKE ANY FUTURE OIL EMBARGO MORE EFFECTIVE, ALTHOUGH IT IS DOUBTFUL THE KUWAITIS (OR OTHER OAPEC) STATES WOULD MIND IF THAT WERE THE CASE. RATHER MAIN MOTIVATION FOR KUWAIT IS ECONOMICS. THEY WISH TO INCREASE THEIR PROFITS FROM OIL BY BECOMING INVOLVED IN AS MANY FACETS OF THE INDUSTRY AS POSSIBLE. CHARTERING SHIPS TO CARRY THEIR OR OTHER STATES' PETROLEUM OR PRODUCT IS ONE OF THE MOST ATTRACTIVE OPERATIONS IN WHICH THEY CAN BECOME INVOLVED. THE CAPITAL INTENSIVE NATURE OF THIS INDUSTRY COUPLED WITH THE LACK OF NEED TO HAVE THE INDUSTRY'S LABOR FORCE RESIDENT IN KUWAIT, MAKES SHIPPING ALMOST AN IDEAL INVESTMENT IN KUWAIT'S VIEW. MOREOVER, THEY CAN MORE EASILY CONTROL SUCH ASSETS FROM FOREIGN SEIZURE THAN SAY A DOWNSTREAM REFINERY OR A STRING OF GAS STATIONS IF THEY CHOOSE TO IMPOSE ANOTHER EMBARGO. TO THIS EXTENT SECURITY ALSO HAS PLAYED A ROLE IN MAKING THIS SORT OF INVESTMENT ATTRACTIVE BUT WE BELIEVE THIS TO BE A RELATIVELY MINOR INCENTIVE SINCE KUWAIT'S INVESTMENT IN SHIPPING FAR PREDATES THE POLITICIZATION OF OIL.

3. OPEC FLEET CONTROL -- WITH TANKER MARKETS DEPRESSED THE KUWAITIS AND OTHER OPEC SURPLUS FUND STATES ARE IN A POSITION TO BUY "RESALES" AT VERY ATTRACTIVE PRICES WITH LITTLE FEAR THAT CUSTOMERS TO CHARTER THESE VESSELS WILL BE LACKING. KUWAIT IN ALL ITS DIRECT SALES TO THIRD PARTIES SEEMS TO BE SPECIFYING THAT KUWAITI FLAG SHIPS BE GIVEN PRIORITY IN CARRYING THE PETROLEUM PURCHASED. ONCE THEY ACQUIRE LPG AND PRODUCT FLEETS SIMILAR ARRANGEMENTS ARE LIKELY TO HOLD. IF MOST OPEC STATES DECIDE TO MOVE STRONGLY INTO THE SHIPPING BUSINESS IT IS LIKELY THAT INDEPENDENT SHIP OWNERS NOT HAVING LONG TERM LEASING ARRANGEMENTS WITH MAJOR OIL COMPANIES OR LARGE CONSUMING NATION COMPANIES WILL BE INCREASINGLY SQUEEZED OUT OF THE BUSINESS IF PRESENT DEPRESSED MARKET CONDITIONS CONTINUE. HOWEVER, WE HAVE NOT HEARD ANYTHING TO SUGGEST THAT OAPEC SPONSORED ARAB MARITIME PETROLEUM TRANSPORT CO., WHICH IS CONFIDENTIAL

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BASED IN KUWAIT AND WOULD SEEM TO BE BELLWETHER OF SUCH ACTIVITY (I.E. GAINING FLEET CONTROL FOR THE PURPOSES OF POLITICAL OR ECONOMIC LEVERAGE) IS MOVING IN THIS DIRECTION. EVEN IF IT WERE, REF A POINTS OUT OPEC STATES CONTROL A LITTLE LESS THAN ONE PERCENT OF THE WORLD'S TANKER TONNAGE WHICH WOULD SEEM TO MAKE SUCH A GOAL HARD TO REALIZE QUICKLY. ADD TO THIS THE FACT THAT MOST OPEC STATES WILL NOT ENJOY HUGE SURPLUSES MUCH LONGER, AND THOSE STATES THAT DO (KUWAIT,

SAUDI ARABIA AND THE UAE) WOULD SEEM TOO CONSERVATIVE AND TIED TO THE FREE WORLD AND ITS ECONOMY TO RISK SUCH A BLATANT CHALLENGE WITHOUT A MAJOR PROVOCATION (E.G. A SWEEPING ISRAELI VICTORY).

4. COMMON POLICIES TO THWART PRODUCING NATION FLEET CONTROL-- WHILE WE ARE UNABLE TO PULL TOGETHER SUFFICIENT INFORMATION TO JUDGE WHAT, IF ANY, STEPS ARE NEEDED TO FORESTALL A POTENTIAL TAKEOVER OF A LARGE PART OF THE FREE WORLD'S TANKER AND PRODUCT TONNAGE BY OPEC STATES, OUR BASIC REACTION WOULD BE THAT NOTHING HAS YET BEEN DONE WHICH WOULD SEEM TO CALL FOR INSTITUTING ANY STRONG MEASURES. IN FACT, AN OVERREACTION ON OUR PART COULD TRIGGER JUST THE TYPE OF ACTION WE SEEK TO DETER. THE BEST APPROACH MAY BE TO QUIETLY INSTITUTE EITHER OURSELVES OR WITHIN THE IEA AN OPERATION TO MONITOR THE PURCHASE OF NEW AND RESALE VESSELS WHICH CARRY PETROLEUM, GAS, AND THEIR MAJOR DERIVATIVES. IF IT WOULD APPEAR THAT A SUFFICIENT PERCENTAGE OF WORLD TANKERS TONNAGE HAS COME UNDER OPEC CONTROL TO MAKE ANY FUTURE EMBARGO OR MONOPOLISTIC CONTROL OF PETROLEUM SHIPPING A CLEAR POSSIBILITY THEN OTHER MEASURES OF A STRONGER NATURE SUCH AS RESTRICTIONS ON TRANSFERS OF NATIONAL FLAG CARRIERS, ETC., COULD BE INSTITUTED. WE DO NOT, HOWEVER, EXPECT THIS SITUATION TO DEVELOP.
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